STATEMENT

By

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Before the

House Subcommittee on Housing and Community Opportunity

On behalf of

National Association of Counties

National Association for County Community and Economic Development

National Association of Local Housing Finance Agencies

National Community Development Association

U.S. Conference of Mayors

on Housing Affordability Issues

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Madam Chair and Members of the Subcommittee:

I am Randy Patterson, Executive Director of the Housing and Redevelopment Authorities of Lancaster County, Pennsylvania. I am appearing before you today on behalf of the National Association of Counties, the National Association for County Community and Economic Development (of which I am the immediate past President), the National Association of Local Housing Finance Agencies, the National Community Development Association, and the U. S. Conference of Mayors. We appreciate the opportunity to share our views and recommendations on the issue of housing affordability and the role that various federal programs play in addressing this critical national issue.

The Need for More Affordable Housing

Nearly five million renter households have worst case housing needs, according to HUD's *Report on Worst Case Housing Needs*. These households contain renters with incomes below 50 percent of area median income who pay more than half their income for rent or live in severely substandard housing. Progress in assisting these households is diminished by the substantial shortages of affordable housing. With rents continuing to rise faster than inflation, basic pressures for above-average rent increases at the bottom end of the rental stock are further eroding the supply of rental units that are affordable without government subsidies, according to the report. Between 1997 and 1999, the number of units with rents affordable to households with incomes below 50 percent of AMI dropped by 1.1 million, a loss of seven percent. The report's findings on the accelerated reduction in the number of affordable rental units show that the private market is not producing enough affordable rental housing to meet existing demand. One answer to this crisis is to produce more affordable housing. Effective federal housing programs, such as the HOME Investment Partnerships Program, must be increased in order to meet the demand for affordable rental housing. Recent legislation passed by Congress and signed by the President to increase available resources under the Low Income Housing Tax Credit, as well as for tax-exempt Private Activity Bonds, are other essential components of an effective affordable housing production strategy. Besides producing more housing, we also need to focus on preserving existing affordable housing.

In Lancaster County, for example, housing affordability is a serious problem. In order to afford a one-bedroom rental unit renting at the Fair Market Rent of $466/month, a person making just over the minimum wage ($7) must work 51 hours a week. For a two-bedroom unit, with a rent of $580, that same person would have to work 64 hours a week to afford that rent. For a three-bedroom unit renting at $758/month, that same person would have to work 83 hours per week.

As a further illustration, in Lancaster County, a three-bedroom unit can rent for as high as $666/month under the Low-Income Housing Tax Credit program. This rent is based on a hypothetical 4.5 person family (1.5 persons per bedroom) earning 50 percent of the County median income or $26,650 and paying 30 percent of its income for housing expenses. The occupancy of three-bedroom units in Lancaster County averages 3.5 persons.

The average income of a family occupying a three-bedroom unit averages 36 percent of the County median income. This average family earning 36 percent of the County median income would have to pay 45.5 percent of its income to rent this unit. An average three-person family would pay 48 percent of its income for the unit. This unit would be affordable only to four and five person families earning 50 percent of the County median income. The four-person family earning 50 percent of median income would pay 31 percent of its income for the unit, while a five-person family would pay 29 percent of its income for the unit. The same lack of affordability holds for one and two bedroom units under the rules of the tax credit program.

In Lancaster County a family of four earning 50 percent of the area median could afford to purchase an $85,000, but the average price of a single-family home is $127,000. In San Diego, California a family of four earning the median income could afford to purchase a $170,000 home, but the median price of a newly constructed home is $345,000 and the median price of an existing single-family home is $265,000.

Also in San Diego, where 13 percent of the workforce earns less than $8.35 per hour, the Housing Commission has reported that a family needs to earn approximately $20.00 per hour to afford the average apartment.

We have been asked to comment on the effectiveness of the HOME, Community Development Block Grant and other federal programs as tools in expanding affordable housing opportunities and undertaking neighborhood revitalization activities.

HOME Investment Partnerships Program

The HOME Investment Partnerships Program has been a catalyst in spurring new affordable housing development since 1992. HOME is useful in providing funding for housing production, particularly as gap financing for many rental projects. The flexibility of the program allows local participating jurisdictions to use the program funds in combination with other federal, state, and local funds, and to work with their non-profit partners, to develop affordable housing, both ownership and rental, based on locally-defined needs.

According to cumulative HUD data, since HOME was created in 1990, it has helped to develop or rehabilitate over 583,474 affordable homes for low- and very-low income families. Targeting is very deep in the HOME program. The majority of HOME funds have been committed to housing that will be occupied by very low-income people and a substantial amount will assist families with incomes no greater than 30 percent of median (extremely low income). As of the end of March 2001, more than 82 percent of home-assisted rental housing was benefiting families at or below 50 percent of area median income, while 41 percent was helping families with incomes at or below 30 percent of area median income.

HOME funds help low- and very-low income families realize the dream of homeownership by providing for construction and rehabilitation of housing as well as providing the down payment and/or closing cost assistance. Since 1992, HOME funds have been committed to 331,168 homeowner units.

HOME is cost effective and provides the gap financing necessary to attract private loans and investments to projects. For each HOME dollar, $3.87 of private and other funds is currently being leveraged. This clearly illustrates the judicious use of HOME funds by local governments.

We note that the Bush Administration is proposing a $200 million set-aside within HOME for a down payment assistance program to be administered by state housing finance agencies. We are opposed to this set-aside. HOME funds may already be used for downpayment and/or closing cost assistance. In fact, since 1992 $1.06 billion has been used to help families buy their first home. There is no need to create a separate program for this purpose for it would result in a $200 million cut in formula grants. Further, it chooses one delivery system – state housing finance agencies – for no proven programmatic purpose. By proposing this set-aside the Administration is deciding what it believes is the critical need to be addressed in communities. In Lancaster County, where the homeownership rate is above 70 percent, affordable rental housing is the critical need. The County is already using CDBG funds to provide downpayment and closing cost assistance.

During the 106th Congress there were a couple of proposals to create a new housing production program primarily targeted to households at or below 30% of area median income. In an effort to avoid a situation where such a program would compete with HOME, local officials propose that a housing production element be incorporated within HOME. The infrastructure is already in place to implement such a program.

Our proposal would provide grants for new construction, substantial rehabilitation and preservation of multifamily housing. Mixed income projects would be encouraged. All of the resources made available under our proposal must benefit households at or below 80 percent of median income, with at least 25 percent benefiting those at or below 30 percent of median income. Funds would be apportioned 60 percent to local participating jurisdictions and 40 percent to states using a formula that measures inadequate housing supply. We would be pleased to work with the Subcommittee on crafting a production program.

In addition, there are several other modifications/refinements to the HOME program that we offer for the Subcommittee's consideration:

- We recommend that a loan guarantee program be added to HOME, modeled after the very successful Section 108 program under CDBG. Such a program would enable participating jurisdictions to "borrow" against future entitlement grants in order to undertake large-scale projects. The House passed this proposal in 1994, but the Senate never acted;
- We recommend that HOME's targeting requirements be simplified by conforming them to those applicable to the Low-Income Housing Tax Credit Program, i.e. not less than 20 percent of the units reserved for households at 50 percent of median income or 40 percent of the households at 60 percent of median income, paying no more than 30 percent of their

income for rent;

- We recommend that the statute be changed to allow participating jurisdictions to provide matching funds on a program year, rather than the current federal fiscal year basis, to simplify program administration;
- We recommend permitting the substitution of a substantially equivalent state or local environmental review requirement for the environmental review requirements under NEPA;.
- We recommend providing an exemption from the environmental review requirements for rehabilitation of one to four units and all owner-occupied rental and homeownership projects;
- We recommend deleting the current-law requirement that the Secretary establish per-unit subsidy limits. The statute already requires participating jurisdictions to certify that they have not provided more funds than are necessary to assure a project's financial feasibility.

HOME is a sound program, with an excellent track record in developing affordable housing for households at various income levels. However, HOME is limited by the amount of funding that is appropriated each year. Funding for the program has increased very little since it first began in 1992. The amount allocated under the program in 1992 was $1.460 billion. The amount appropriated for 2001 was $1.8 billion. In order to expand efforts to meet the enormous need for affordable housing in this country, adequate resources must be appropriated for programs such as HOME. We propose a funding level of $2.25 billion for the basic HOME program in FY 2002, along with an additional appropriation of $2 billion for a rental production program within HOME once enacted.

Community Development Block Grant Program

Now in its 27th year, the Community Development Block Grant program is the Federal government's most successful domestic program. The CDBG program's success stems from its utility, i.e., providing cities and counties with an annual, predictable level of funding, which can be used with maximum flexibility to address their unique neighborhood revitalization needs.

Based on HUD's most recent annual report to Congress, between FY1993 and FY1996 an estimated 14-17 million households benefited from the CDBG program. During that same period an estimated 114,799 jobs were created through CDBG-funded economic development activities. In FY 1993, entitlement communities spent funds in the following manner: housing rehabilitation, assisting over 200,000 households (35.8 percent), public works and infrastructure (22.7 percent), planning, monitoring and program administration (14 percent), public services (12 percent), acquisition and clearance of property (7.3 percent), preventing or eliminating slums and blight (6 percent), and economic development (6 percent).

We are aware that legislation has been introduced, H.R. 1191, that would fundamentally change the nature of the CDBG program. It would destroy the program's currently flexibility and effectively eliminate area benefit activities. Instead of the CDBG program being a tool for expanding affordable housing opportunities and encouraging neighborhood revitalization, it would turn it into an "anti poverty" program, something Congress never intended. The bill increases from 70 percent to 80 percent the aggregate (i.e. over three years) amount of funding that must benefit low-and moderate-income persons, and 40 percent of that amount must benefit low income persons (those at or below 52 percent of the area median income). The bill further targets CDBG funding by disallowing low- and moderate-income benefit credit for activities undertaken in areas that are not primarily residential in character. In other words, use of CDBG funds in downtown areas that are not primarily residential would not count against the proposed 80 percent and 40 percent principal benefit tests. Yet, downtown business districts in many smaller communities are the central location for services and commodities available for the low-and moderate-income residents of these neighborhoods. We think it is inappropriate to establish national policy and restrictions on the use of CDBG funds, as the bill would do, to resolve what we understand is essentially a local issue.

The bill also reintroduces the notion of "proportionate accounting" of benefit. Under this provision area benefit activities would be considered to principally benefit persons of low- and moderate-income persons or persons of low-income in the same proportion as the proportion of such area that is comprised of low-and moderate- income or low-income persons. CDBG funds used for housing and job-creation activities would also be subjected to the same proportionate accounting of benefit.

We strongly urge you to oppose this harmful legislation.

There are several refinements to the CDBG program that we offer for the Subcommittee's consideration:

- We recommend that the threshold for application of the Davis-Bacon requirements for CDBG conform to that of the HOME program, i.e. 12 units or more;
- We recommend making CDBG expenditures for fair housing a directly eligible activity, rather than its being subject to the 20 percent administrative cap. This will take some of the pressure off the administrative cap;
- We further recommend eliminating the current law requirement that housing service activities under CDBG be subject to the 20 percent administrative cap. This is a technical correction. The law prior to the 1992 amendments did not place these activities under the cap;
- We recommend permitting the substitution of substantially equivalent state or local environment review requirement for the environmental review requirements under NEPA;
- We recommend exempting CDBG funding used for economic development from the Section 3 requirements, which create an unnecessary paperwork burden on businesses assisted.

We were, of course, pleased that for Fiscal Year 2001 Congress increased formula funding for the CDBG program by $200 million. This was the first increase in formula grants since 1996. Since 1995 formula funding had been eroding due to the proliferation of set-asides within CDBG, something that we strongly oppose. We are asking for an increase in formula funding for Fiscal Year 2002 to $5 billion. The needs, which CDBG addresses, are immense and increased funding is essential.

Other Federal Housing Production Programs

There are two other programs that play a key role in expanding the supply of affordable housing – Low-Income Housing Tax Credits and tax-exempt Private Activity Bonds. Tax credits provide equity investments for affordable rental housing, while tax-exempt bonds provide debt financing for affordable rental housing and first mortgage assistance for income-qualified, first-time homebuyers (Mortgage Revenue Bonds). We worked very hard over the past four years to convince Congress of the need to increase the statewide volume caps that apply to these two programs. We were very pleased that Congress increased both volume caps in a two-step process as part of last year's omnibus appropriations bill. Under the legislation, the tax credit cap increased on January 1, 2001 from the previous $1.25 per capita, per state to $1.50 per capita, per state. On January 1, 2002 it will increase to $1.75 per capita, per state. Similarly, the volume cap for Private Activity Bonds increased on January 1, 2001 from the previous greater of $50 per capita or $150 million per state to the greater of $62.50 per capita or $187.50 per state. On January 1, 2002 it will increase to the greater of $75 per capita or $225 million per state. Both caps are indexed for inflation going forward. In most states housing gets the lion's share of the bond volume cap.

However, the bond cap increase will be undermined by an obscure provision added to the tax code in 1988 applicable to Mortgage Revenue Bonds. It requires that mortgage prepayments made 10 years after the date that the bonds were issued be used to redeem the bonds, rather than recycling them into new mortgages. Recycling is permitted within the first 10 years. We believe it should be permitted after the first 10 years, and therefore support H.R. 951. This legislation, introduced by Reps. Houghton and Neal, would repeal the 10-year rule. H.R. 951 also provides an optional method for calculating the maximum allowable purchase price of a home that a first-time homebuyer can purchase with Mortgage Revenue Bond assistance. We urge the members of the Subcommittee to become cosponsors of this important legislation.

The final issue upon which we wish to comment is the need to renew expiring rent subsidy contracts under the McKinney Act's homeless housing programs. In order to assure continuity of services and rental assistance in these projects we recommend that the Supportive Housing Program renewals and Shelter Plus Care renewals be transferred to the regular Section 8-rental program. This would allow more funding to be available under HUD's homeless assistance programs for the development of new projects to assist the homeless.

Madam Chair, we again thank you for the opportunity to testify before you today. We look forward to working with you on addressing the housing affordability crisis.